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SUBJECT: THE TOLEDO-URIBE MEETING AND PERU'S GAME PLAN FOR
U.S.-ANDEAN FTA

REF: BOGOTA 8415

1. (SBU) Summary: In separate meetings with the Ambassador the Ministers of Trade, Foreign Relations and Production described Toledo's one-day trip to Colombia as productive. The GOP believes Uribe was not previously aware of how much Colombia's FTA team is out of sync with Peru's. Peruvian business representatives who accompanied Toledo expressed dismay over the negative attitudes and unrealistic expectations of their Colombian counterparts; Some Peruvian commercial reps wonder whether Colombia's lead negotiator intentionally put them up against anti-FTA counterparts in the hopes of reining in Peruvian enthusiasm. Peruvian participants perceived a change of tone once Uribe staked out a strong position in favor of wrapping up negotiations in October, but remain cautious about whether this will happen. Toledo and Uribe reportedly agreed to visit Washington together in mid-October to meet with US officials regarding the FTA. Trade Minister Ferrero told us that wrapping up the FTA in concert with Colombia remains plan A, but the GOP is weighing a Plan B: concluding an agreement with the U.S. first in the expectation it would force Colombia's hand. End Summary.

Got Uribe's Attention

2. (SBU) The Ambassador and Econcouns met with Trade Minister Alfredo Ferrero on September 7 to review President Toledo's recent visit to Colombia (reftel) and Peru's plans for the U.S.-Andean Free Trade Agreement (FTA). Ferrero said Toledo performed well, describing the September 5 meeting with Colombian President Uribe as productive, resulting in a public commitment by both presidents to conclude the FTA negotiations in October. While President Uribe appears sincere in his desire to finish negotiations next month, Ferrero was skeptical Colombia could achieve this.

3. (SBU) Ferrero noted that Uribe realized that his FTA team is moving at a different pace than Peru. Ferrero also noticed disunity among the Colombian Ministers and FTA negotiators, making it unclear who is in charge or makes the decisions. In response to Colombian complaints that they are tired of presenting proposal that receive no U.S. response, Ferrero said he encouraged the Colombians to make more realistic proposals and not waste time on dead-end issues. For example, he told them they should assume U.S. exclusion for sugar, and propose something to get in return. Ferrero said he urged the Colombian team to take risks, noting that in the end, nothing is final until the whole package is accepted.

GOP Strategy: Negotiate Peru First

4. (SBU) Ferrero described two scenarios, either of which President Toledo is prepared to pursue. Plan A is to negotiate the FTA alongside Colombia; under this scenario Ecuador would follow afterwards. Plan B is for Peru to negotiate the FTA with the U.S. by itself, without Colombia and Ecuador. The two Andeans would join later when ready.

5. (SBU) Ferrero emphasized that Peru previously pulled the Andean trade cart during negotiations with Mercosur. Once Peru concluded that deal by itself, the other Andeans followed suit, signing a similar deal with the Mercosur countries six months later. Ferrero expected a similar result in the U.S.-Andean FTA: the two Andean partners would feel left out and disadvantaged under a Peru-first FTA scenario. Consequently, Colombia and perhaps Ecuador would return to the negotiating table with more realistic expectations and positions to close the deal.

6. (SBU) The Trade Ministers' only reservation about going it alone is that Colombia might later negotiate a better deal than Peru's. The Peruvian trade negotiators received considerable criticism at home when Colombia and the other Andeans signed what was perceived by some to be an improved

deal with Mercosur. Ferrero stated that Peru could guard itself against such a hypothetical (and deflect potential criticism of its strategy) by stipulating in the FTA text that Peru could equalize any arrangements negotiated in subsequent Andean FTA deals.

Concerns About U.S. Ally

17. (SBU) Ferrero noted that Plan B -- Peru leading the way -- would only work if USTR were willing to conclude with Peru first. Without a U.S. commitment to test this approach, Ferrero fears that an Andean FTA would slip away, particularly given the upcoming Andean electoral campaigns. Ferrero indicated that he will accompany President Toledo to Washington in mid-September to bolster support for the Andean FTA in Congress and within the executive.

18. (SBU) The Trade Minister noted that a good portion of the discussion in Bogota focused on Andean concerns with USTR. They lament that the Andean FTA is not on the U.S. political agenda. Ferrero added that Hurricane Katrina might further shift the U.S. Congress' attention to other priorities. He also revealed Andean disappointment with changes of some U.S. negotiators.

Other Ministerial Perspectives

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19. (SBU) In a separate meeting, Foreign Minister Murtua told the Ambassador that Uribe agreed to accompany Toledo to Washington on or about October 11 to meet with US officials regarding the FTA. The Foreign Minister expected the two leaders to seek an appointment with President Bush. Production Minister Lemor gave the Ambassador an account of the Bogota meeting that was consistent with Ferrero's, but he was even less convinced that Uribe's marching orders to finish in October would stick. Lemor noted that the Colombians had not advanced as far as Peru in discussing internal compensation, domestic opposition to an FTA is greater there, and the politics of early closure play out quite differently for Uribe.

Peru's Private Sector View

10. (SBU) Peru's Exporter Association (ADEX) President Luis Vega, who accompanied President Toledo to Bogota, told the Ambassador on September 7 that his Colombian business interlocutors demonstrated an unrealistic appreciation of the situation. Some Colombian commercial leaders argued that ATPDEA could be extended. Also worrisome, the Colombian timeline for FTA closure was much longer, Vega lamented. On the positive side, When President Uribe announced the October goal, Vega noted that the head of the Colombian business group adjusted his comments accordingly. Vega opined that the Colombian Government had done a poor job preparing its private sector, failing to develop (as had the Toledo administration) compensation mechanisms for the most sensitive agricultural products.

11. (SBU) The Executive Director of AmCham, another Peruvian private sector participant, expressed similar disappointment with Colombia's private sector leaders. He expressed dismay that some of them argued Colombia would be worse off with a U.S.-Andean FTA. Several Peruvian business representatives found it perplexing that the Colombian Government did not present its most supportive private sector FTA advocates. Both they and the Minister of Production wondered whether Colombia's lead FTA negotiator had convoked FTA skeptics in order to put the brakes on the process.

Toledo Engages on Issues

12. (SBU) Peru's Chief FTA Negotiator Pablo de la Flor told us that President Toledo's September 2 meeting with select ministers and his FTA negotiators sparked the decision to travel to Colombia. President Toledo spent four hours reviewing options on difficult issues necessary to close the deal with USTR. Describing it as the most substantive meeting yet with Toledo, De la Flor stated that Peru's agriculture package should now fall into place.

13. (SBU) De la Flor argues that it is critical to reach the "handshake" with the United States by October. The subsequent signing of the accord could be determined later, decided by political considerations (e.g., electoral calendars, resolution of commercial disputes, Colombia joining the deal). With the new cabinet led by Pedro Pablo Kuczynski, de la Flor believes that Peru is in the best position to conclude the FTA negotiations (non-FTA supporters such as former Prime Minister Carlos Ferrero and Foreign Minister Rodriguez left the government).

Comment: Now is the Time

14. (SBU) It remains to be seen whether the GOP will be as flexible and determined in the upcoming FTA round as our interlocutors have claimed. What is not in question is that as we approach Peru's national elections in April 2006, Toledo's ability to wrap up the trade accord with the current broad consensus in Congress and among the public will probably diminish. The President realizes that his window to finish the FTA is closing, and he appears ready to cut a deal, with or without Colombia. Peruvian exporters also are increasingly concerned that without a permanent substitute for ATPDEA in place by next May-June, U.S. buyers and manufacturers will look elsewhere for alternatives to Peru.

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